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8 August 1956

MEMORANDUM FOR: Executive Secretary, EIC

SUBJECT : Annual Report, FY56, of the EIC Subcommittee on International Trade and Finance

REFERENCE : EIC-D-168, 22 June 1956

A. Activities of the Subcommittee During the Fiscal Year

1. Review of the Intelligence Product

The Subcommittee did not engage in the review of intelligence products in the international trade field during the year.

2. Research & Collection Deficiencies

The Subcommittee met early in the Fiscal Year and identified four major research deficiencies then existing in the field. They were:

- a. Intra-Bloc Balance of Payments
- b. Financial Resources of the Bloc
- c. Price Movements in East-West Trade
- d. Sino-Soviet Economic Relations

With the exception of "c" above, a considerable amount of research has been completed on these deficiencies, mainly in OIR and ORR. Thus, although much remains to be done in these areas, some of these deficiencies are less critical than formerly. In addition, certain other aspects of Bloc trade and finance are becoming increasingly important and are beginning to receive the attention of the intelligence community. Thus, the Subcommittee plans to meet in the near future to update this list.

The Subcommittee has not drawn up a list of critical collection deficiencies. It is planned, however, to do this in conjunction with the revision of the research deficiencies list.

3. Review of Substantive Papers

Although the Subcommittee reviewed no substantive papers during the year, it did discuss criteria for doing so. It was decided to leave to the producing agency the decision as to which of its research papers were important enough to be reviewed by the Subcommittee. However, if another agency disagrees with the research findings of a paper for which a review has not been requested, the disagreement is to be brought to the attention of the Subcommittee.

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4. Review of Proposals for External Research

No proposals for external research were submitted to the Subcommittee for review.

5. Maintenance of Agreed Basic Statistics

The Subcommittee tentatively agreed as to what trade statistics should be maintained on an agreed basis. The decisions were as follows:

a. East-West Trade

It was agreed that normal recorded East-West trade data could be excluded. All agencies receive such data from a single source (Department of Commerce) and the basic data would not therefore vary from agency to agency. However, the adjustments made to such data (C.I.F., F.O.B., etc.) do need to be agreed upon and this will be done in the near future. It was decided that estimates of clandestine trade (annual by value) and the international movement of Bloc gold would be maintained on an agreed basis.

b. Intra-Bloc Trade

It was tentatively decided that the maintenance of statistics on Intra-Bloc trade would be limited to the annual trade (by value) of each Bloc country with the USSR, the European Satellites (as a whole), and Communist China. It was also agreed that the commodity composition of trade would be adequately represented by maintaining estimates of 6 or 8 major commodity groups moving in Intra-Bloc trade.

6. Projects Undertaken at the request of the EIC

The EIC has requested no projects during the year and no Subcommittee proposals were made.

7. Intelligence Research Techniques

The only discussion of techniques and methodology which occurred was in connection with the adjustments to be made in East-West trade data. This will be continued in conjunction with the discussions on the maintenance of agreed basic statistics.

8. Special Coordination Functions

No special coordination was undertaken during the year.

9. Evaluation of the Role of the Subcommittee

The Subcommittee has not realized its potential as a medium for inter-agency review and coordination. As was stated in last year's report, the major problem is that the Subcommittee is not assigned any really important coordination functions such as those connected with the NIE's, EIC-RI series, and Bloc economic penetration activities. What remains for the Subcommittee to do is of so little overall importance that the members have not in the past felt that the Subcommittee played any significant role in inter-agency activities. Unless the Subcommittee can become the inter-agency coordinating group for matters pertaining to Bloc international trade and finance, its role will not be great enough to command the enthusiasm necessary to make its program successful.

B. Future Program of the Subcommittee

The Subcommittee plans to meet in the near future to bring up to date its research deficiencies list and to draw up a collection deficiencies list. It plans to implement the decisions and proposals for the maintenance of agreed basic statistics. It is also planned to initiate discussions on broadening the Subcommittee's role in inter-agency coordination activities in the field of its responsibility.

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Secretary
Subcommittee on International Trade and Finance

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1 November 1955~~S-E-C-R-E-T~~INTERNATIONAL TRADE AND FINANCEFrequency of Meetings: 4 meetings in FY 1955 plus conferences of working groups on 2 papersSC MEMBERS
EvaluationValuable?Continue?Future Work?Faults?

AFOIN

Some - for
background

Yes

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Fairly - has
been means of
producing 2
valuable studies

Not urgent

Stand-by basis
only

None

Commerce

Marginal to us
as Commerce role
has been primar-
ily to provide
data rather than
to obtain assis-
tance.Yes, assuming
its functions
could be clari-
fied and that,
as a subcommittee
there is a job
for it to do in
the field beyond
that now being
carried on by
its members as
individualsSearch out real
gaps - formulate
some plan for
meeting them;
attempt to develop
agreed methodology
for adjustments to
individual members
basic trade statistics
for use by all Gov.
agencies working on
Bloc trade; more
effectively keep
subcommittee in-
formed of work done
by membersLack of continuity
and lack of well-
defined objectives.
Should be more
than a clearing
house for projects of

ICA

Yes - in the
past SC has
prepared reports
of considerable
interest to MDAC

Yes

At least two pro-
jects in field of
E/W trade, both
rather large, are
presently contem-
plated, which
interest MDAC
very muchHave attended only
one meeting so
cannot answer

SC MEMBERS

<u>Evaluation</u>	<u>Valuable?</u>	<u>Continue?</u>	<u>Future Work?</u>	<u>Faults?</u>
OIR	Ought to be. Major contribution has been SR-3 and R-11. These indicate clearly the role of the SC in handling extended basic studies which are not urgent and which are beyond the resources of a single agency. The present SC would have difficulty in handling an urgent study, i.e., one to be completed on a short deadline - and such studies should ordinarily be undertaken by single agencies	Yes	Maintain agreed basic statistics; maintenance and extension of balance of payments study; price index for deflation of E/W trade values; continuation interdepartmental surveys of research. Working groups for particular studies.	Participation of many members not adequate - particularly, work of SC has been going on without active participation of military representatives.
ONI	Of little value	Dissolve or combine	Committee has very little to do and there appears to be no coordination or interagency problems which require SC action.	
ORR	Yes. ORR participation in SC activities resulted in better exchange of information among agencies, improvement in intra-agency working relationships, establishment of better research standards - all materially aided carrying out of ORR and IAC responsibilities.	Yes. Has potential for future activity of considerable value.	Should review and coordinate contributions to any NIE's concerned with trade and finance of Sino-Soviet Bloc. Participate in formulation and review of R1 series in same manner as SC on Transportation. Review single agency research projects. Keep data in R-11 current, with annual revision.	Has not in past been assigned any really important coordination tasks.

SC MEMBERS
Evaluation

	<u>Valuable?</u>	<u>Continue?</u>	<u>Future Work?</u>	<u>Faults?</u>
OSD	Little value to one office, but E/W trade office feels SC could perform valuable function for them.		Statistics of trade and Soviet world balance of payments. Trends and changes in direction of Bloc trade and investment may be indicators of political and economic pressures and deliberate decisions, which in the interest of free-world security, require counter actions.	SC performed work competently. Meetings efficiently run, but only a minority of those present, who are specialists in the field, have much to offer.

Subcommittee's Evaluation of Itself (From Annual Report):

"The work of the subcommittee to date has primarily centered around two major research problems, i.e., Soviet Bloc Balance of Payments with the Free World, and Soviet Bloc Trading Institutions and Arrangements. As was pointed out in A.1, both these projects were important to the intelligence community and were ideally within the purview of the subcommittee.

"The subcommittee has not realized its potential as a medium for inter-agency review and coordination. The major fault of the subcommittee is that it has not in the past been assigned any of the really important coordination tasks (NIE, EIC-R1, etc.). As a consequence, its members have not felt that the subcommittee played an important part in interagency activities. It is essential to the future of the subcommittee that it have a substantial role in such important projects. Otherwise, it will not be fulfilling its major responsibilities and will never be more than a minor adjunct to inter-agency activities.

"The future role of the subcommittee should be to be the inter-agency coordinating body, including review and research when possible, on basic intelligence problems regarding trade and finance of the Sino-Soviet Bloc. More precisely, the subcommittee is engaged in planning and setting up of procedures for accomplishing the following:

1. Revision of EIC-R-11
2. Maintaining agreed statistics
3. Reviewing single agency papers
4. Coordinating important interagency projects (NIE's, etc.)
5. Standardizing methods of handling and adjusting trade data."

Secretariat's Evaluation of SC Activities:

This group has been handicapped by the loss a year ago of a particularly active and able representative of Federal Reserve. They have also had a number of security clearance problems with other key members, and the chairman was

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unavailable for some months. Although two EIC publications were coordinated through this subcommittee last year, most of the active work involved was handled by the subcommittee and EIC Secretariats' working with small interagency groups of individuals directly assigned to these studies. The "potential" of this subcommittee, however, is most important - if they can find specific areas for coordinated analysis. There have been a number of suggestions that this group would like to be asked to undertake more "sexy" studies for the EIC - perhaps in connection with R1-S5, next spring.

Recommended EIC Action:

1. To request the SC to explore the possibilities of drafting an agreed US working paper on "Communist China's International Trade, 1950 through 1955" - to include a discussion of the significance of such trade movements to China's economic development. (The primary purpose of this paper would be to serve as background for a possible R-1-S5 on the subject next summer, which would revise earlier trade figures in the EIC-R1 series in light of recent Communist announcements.)
2. To authorize the SC to explore the possibilities of revising EIC-R-11 to include an estimated balance of payments for 1954.
3. To request the Chairman, EIC to consult with ONE as to the desirability of utilizing this subcommittee to review and coordinate the foreign trade sections of contributions to the NIE's on the USSR, European Satellites, and China scheduled for FY 1956.

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Subcommittee

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18 August 1955

MEMORANDUM FOR: EIC Secretariat

SUBJECT : Survey of the Activities of the EIC Subcommittee
on International Trade and Finance.

1. Question: Has the work of your subcommittee been valuable? What has your participation in subcommittee activities contributed to: (a) this agency; (b) the intelligence community, and (c) the United States?

Answer:

The work of the subcommittee to date has primarily centered around two major research problems, i.e., Soviet Bloc Balance of Payments with the Free World, and Soviet Bloc Trading Institutions and Arrangements. Both of these projects were ideally within the purview of the Subcommittee. Although important projects, no one agency had the research facilities or time for such major undertakings; also because the projects were basic to policy formulation by various agencies, it was important that they have inter-agency coordination. ~~Our~~ participation in the activities of the Subcommittee has resulted in a better exchange of information, among agencies, an improvement in intra-agency working relationships, and establishment of better research standards, all of which have materially aided the carrying out of ORR and IAC responsibilities.

2. Question: Should the Subcommittee be continued?

Answer:

Although the role of the Subcommittee has not been extensive in research and coordination problems other than those mentioned, it does fulfill a needed function in inter-agency activities. As noted below it has the potential for future activity of considerable value.

3. Question: If the Subcommittee is continued, what should it do in the future?

Answer:

The future role of the Subcommittee should be to be the inter-agency coordinating body, including review and research when possible,

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on basic intelligence problems regarding trade and finance of the Sino-Soviet Bloc. More precisely, it should review and coordinate the several departmental contributions to any National Intelligence Estimates concerned with trade and finance of the Sino-Soviet Bloc. It should participate in the formulation and review of the EIC-R1 series, in the same manner as the EIC Subcommittee on transportation has in the past. The very title of the latest exercise EIC-R1-34, "Communist China's Imports and Exports 1954-Trade and Transport Involved," indicates the advisability of this suggestion. Furthermore the Subcommittee should review all important inter-agency or single agency research projects dealing with international trade and finance. Finally, as a continuing project the Subcommittee should see that the data in EIC-R1-11, Soviet Bloc Balance of Payments with the Free World, are kept fairly current, with an annual revision.

4. Question: Does the Subcommittee have any major faults? What are your suggestions for improvements?

ANSWER:

The major fault of the Subcommittee is that it has not in the past been assigned any of the really important coordination tasks (NIE, EIC-R1, etc.). As a consequence, its members have not felt that the Subcommittee played an important part in inter-Agency activities. It is essential to the future of the Subcommittee that it have a substantial role in such important projects. Otherwise, it will not be fulfilling its major responsibilities and will never be more than a minor adjunct to inter-agency activities.

5. A special supplement to this memorandum discusses another major fault.

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